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The distributive politics of the eurozone crisis

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THE POLITICAL ECONOMIST

NEWSLETTER OF THE SECTION ON POLITICAL ECONOMY, AMERICAN POLITICAL SCIENCE ASSOCIATION

Co-Editors:

WILLIAM ROBERTS CLARK, TEXAS A&M UNIVERSITY & MARK DINCECCO, UNIVERSITY OF MICHIGAN

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FROM THE EDITORS

It is perhaps appropriate if not unfortunate in light of the Eurozone troubles that the origin of the word “crisis” is Greek. The economic – nay, human – toll of the euro crisis is enormous. For example, the unemployment rate in Greece, a very hard-hit country, rose from under 8 percent in 2008 to over 27 percent by 2013; by April 2015 it still stood at more than 25 percent.¹ Since 2011, Greek youth unemployment (less than 25 years old) has typically been higher than 50 percent. Poverty levels and food insecurity are not only reaching epic levels, but many of Greece’s best and brightest are flocking abroad.²

This issue of *The Political Economist* brings you three truly erudite perspectives by which to better understand the ongoing catastrophe (another word of Greek origin) that is the euro crisis. Jeffry Frieden analyzes the political and economic origins of this crisis, which he characterizes as a classic foreign debt crisis. He also offers perceptive lessons for moving forward. Barry Eichengreen compares the Great Depression of the 1930s with the current crisis. He deftly describes both parallels and important differences between history and the present. Last but certainly not least, Stefanie Walter puts forth a new framework – the vulnerability profile – to assess the likelihood and difficulty of implementing policy responses to balance-of-payments crises like the euro crisis.

1 The unemployment statistics are from Eurostat. The negative effects of the euro crisis have been widespread throughout the Eurozone’s periphery. In Spain, unemployment in 2015 remains above 20 percent; in Italy, it remains above 12 percent.

2 Anemona Hartocollis, “Greece Financial Crisis Hits Poorest and Hungriest the Hardest,” *New York Times*, July 11, 2015. Helena Smith, “Young, Gifted, and Greek: Generation G – The World’s Biggest Brain Drain,” *The Guardian*, January 19, 2015.

We are incredibly grateful to our distinguished contributors, whom we now introduce. Jeffry Frieden is the Stanfield Professor of International Peace in the Department of Government at Harvard University. His contribution draws from his new book, *Currency Politics: The Political Economy of Exchange Rate Policy*, published by Princeton University Press (2015). Barry Eichengreen is the George C. Pardee and Helen N. Pardee Professor of Economics and Political Science at the University of California, Berkeley. He further develops the themes of his contribution in his new book, *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses – and Misuses – of History*, published by Oxford University Press (2015). Stefanie Walter is Professor of International Relations and Political Economy in the Department of Political Science at the University of Zurich. The paperback edition of her book, *Financial Crises and the Politics of Macroeconomic Adjustment*, was recently published by Cambridge University Press (2015).

Sincerely,

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FROM THE CHAIR

Newsletter editors Mark Dincecco and Bill Clark demonstrate once again how political economy uses history, theory, and method to tackle macroscopic questions of great political urgency. Pushing off from the politics of the 2008 financial crisis, the three contributions to this issue of *The Political Economist* – Jeff Frieden, Stephanie Walter, and Barry Eichengreen – compare financial crises and economic slumps across time and space. Between them, they offer explanations for cross-national similarity and divergence in cause and response that range from ideology (of central bankers, for example), to firm-level and sectoral interests, to voter preferences, to cross-national variation in social vulnerabilities, to the relative power of states in the international system. All three authors embed cross-national case studies in analyses of institutions and political currents at both international and national levels. Parsing these factors to identify patterns, identify causal mechanisms, and arbitrate theoretical debates is what keeps political economists in business.

In the 2000s, most scholars of Africa and Latin America moved away from study of the “politics of adjustment” and resigned to the imposed realities of neoliberalism (“there is no alternative!”). In African studies, the order of the day is studying policy implementation and performance, especially at the micro-level of local infrastructure and social service delivery, perfectly consistent with the World Bank agenda of building more efficient states and USAID’s focus on individual politicians’ accountability to voters. There is a striking contrast with the dramatic “scaling up” of much of the political economy work on Europe to a macroscopic focus on the interactions of fiscal, monetary, and social policy. Partly this reflects the harsh reality of cross-regional and cross-national variation in the economic sovereignty of states, a fact underscored even within Europe by Greece’s highly constrained predicament. Partly the contrast in analytic focus between studies of African and European countries is data-driven (rich data opens many analytic possibilities). Yet the difference also points to the question of scholarly scope and vision that all political scientists confront. The contributors to this issue of *The Political Economist* embrace the challenge of scope and ambition in bold

and inspiring ways. They identify and leverage cross-national variation, and propose analytic strategies that embed micro- and national-level political economy in a dynamic international context.

APSA 2015 was a very good meeting for the PE section. Program Chair Nahomi Ichino organized almost 25 panels, roundtables, and the poster session. Many thanks for this service. An impressive list of awards was presented at the business meeting -- see the back pages of this newsletter. (Please remember to nominate the best papers you heard for the Fiona McGillivray Award for best PE paper presented at APSA 2015.) Three new members joined the Executive Committee: Rachel Wellhausen (UT Austin), Leonardo Arriola (UC Berkeley), and Jonathan Rodden (Stanford), and we thanked the outgoing EC members. The business meeting was followed by beers at a local pub.

A highlight of the business meeting was Mark Dincecco’s presentation on the section newsletter, and the warm round of acclaim and thanks he and co-editor Bill Clark received for the consistently high quality and stimulating content of *The Political Economist* under their editorship. Four generations of newsletter editors were present to pile on the accolades and to attest to the joys and rewards of serving the section, APSA, and social science in this capacity. Many present commented that they read the newsletter for new ideas and use it in graduate teaching.

In October 2015, the search for a new newsletter editor or editorial team will open. A call for proposals/expressions of interest in editing the section newsletter will go out in October. Please watch for this announcement and consider putting in a bid. Section Secretary-Treasurer Bill Bernhard will head the search. The new editors will be named in Spring 2016 and their first newsletter should come out in early 2017.

Our Program Chairs for APSA 2016 are Sarah Brooks (Ohio State) and Alberto Simpser (ITAM). Please look for their Call for Papers for APSA 2016.

All best,

Catherine Boone
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FEATURE ESSAY

Political and Economic Origins of the Crisis in the Eurozone

Jeff Frieden, Harvard University

The ongoing crisis in the Eurozone is a classic foreign debt crisis. As capital flowed into countries on the Eurozone periphery, the economies of the debtor nations expanded, then boomed, then bubbled – especially in asset and real estate markets – before crashing. After the collapse, the crisis grew, like all foreign debt crises, into a battle over who would bear the burden of adjusting to the accumulated debts.¹

To be sure, there are unusual features of the Eurozone crisis, associated both with the common currency and with common membership in the European Union. But the central analytical reality of the crisis is that it is remarkably similar, in many respects, to the hundreds of debt crises the world has known in recent decades.

The first few years of the euro were relatively serene, but once the Great Recession began in 2007, conditions became much more difficult. This was not surprising, both due to the massive capital flows that had taken place between 1999 and 2007, and because of features of the Economic and Monetary Union (EMU). At the time of the introduction of the euro, it was clear to most observers that there were at least three important issues that had not yet been resolved. All three contributed to the crisis as it unfolded.

The first problem that EMU, like any currency union, faced was the underlying differences in macroeconomic conditions among the member states. At the time of the introduction of the euro in 1999, there was a clear divergence between the relatively slow-growing Northern European countries and the more rapidly growing Southern European economies. Germany and Spain are exemplary: the

German economy was stagnant while Spain's was growing quite rapidly. This difference was reflected in different rates of inflation: between 1998 and 2007, German inflation averaged just 1.5% a year, while in Spain it averaged 3.2%. This may seem a small difference, but compounded over nearly a decade, it led to a substantial divergence in wages and prices. Indeed, between 1998 and 2007, unit labor costs in Germany actually fell by 3.9% while in Spain they rose by 30.4%.² Trends were similar for the other peripheral Eurozone countries – Greece, Ireland, Italy, and Portugal.

For most of this period, the ECB's main interest rate was around 3%. This meant that real interest rates in Germany were almost 2%, while they were slightly negative in Spain. More generally, given the difference in price and income trends in the two countries, it made it extremely attractive for Spaniards to borrow. Meanwhile, Germany's traditionally high savings rate was being raised further as its population aged and trade surpluses built up. The result was a massive flow of funds from Northern Europe to the Eurozone periphery. As capital flowed from the surplus countries of Northern Europe to the deficit countries of the Eurozone periphery, it reinforced the macroeconomic divergence. The debt-financed consumption boom raised wages and prices, and increased the difference between the two regions. So the attempt to devise a common monetary policy for very different regions of the Eurozone led to a very imbalanced pattern of capital flows, and growth.

This was reflected in the current accounts of the Northern and peripheral European countries – the lenders and the borrowers. In 1998, both Spain and Germany had small current account deficits of about one percent of GDP; Italy and Ireland were running surpluses. By

2008, Germany's current account was in surplus to the tune of 6 percent of GDP while Spain, Ireland, and Italy had deficits of 10, 6, and 3 percent respectively; simply put, Germany's surplus was going to finance the Eurozone periphery's deficits.

Contrary to popular impressions, the vast majority of these loans went to private borrowers. Greece and, to a lesser extent, Portugal, were the only peripheral countries whose governments ran major budget deficits in this period. Spain's enormous deficits went almost entirely to the private financial sector to be on-lent to the country's booming housing market.

The second major problem was that the creation of the Eurozone led quickly to an integrated Eurozone-wide financial market, while bank regulation remained decentralized in the hands of national authorities. This allowed banks to take advantage of regulatory differences to seek out higher-yield, and higher-risk, loans; and also created great uncertainty as to who would ultimately be responsible for banking problems that might arise.

A third problem was that many market participants anticipated that if financial difficulties did arise in one of the Eurozone member states, the other member states would be forced to bail it out. This expectation was widespread, despite attempts by Eurozone and national authorities to insist that there would be no bailout. International and regional experience told market operators otherwise: a major financial meltdown in one country could threaten the entire Eurozone, and would force other countries to step in. Expectations of a bailout meant that market participants did not have to worry about the risks associated with weaknesses in an individual country's finances. These expectations led spreads on sovereign borrowing by all Eurozone

1 This essay is adapted from chapter 4 of my *Currency Politics: The Political Economy of Exchange Rate Policy* (Princeton University Press, 2015).

2 Data from Eurostat.

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Frieden Feature Essay...continued from page 3

countries to decline precipitously when the euro was introduced. For almost ten years every government of the Eurozone could borrow at interest rates roughly equal to those charged to Germany. This, of course, encouraged sovereign borrowing in the Eurozone periphery. Not all countries took advantage of this – Spain and Ireland, for example, did very little public borrowing – but some, led by Greece, did.

In the event, these three problems came together to bring the Eurozone close to collapse. The massive capital flows from the North to the periphery led to a boom, then a bubble, in the periphery. As the 2007-2008 crisis broke, this bubble also burst. Financial institutions throughout the Eurozone turned out to be holding trillions of euros worth of questionable assets. This was true of investors in the creditor (Northern) countries, and of financial institutions in the debtor (peripheral) countries, as much of the lending was intermediated through local banks. Peripheral governments found themselves compelled to bail out their illiquid or insolvent banks, at extraordinary expense.

The result was a Eurozone debt crisis, in which peripheral countries owed debts they could not service to Northern European creditors. There are many fascinating aspects of the crisis, all of them worthy of analysis, but for now I conclude with three points of potentially general interest:

1. In today's financially integrated world, foreign debt crises are no longer the exclusive province of developing countries and emerging markets. And foreign debt crises in advanced industrial countries look very similar to those in poor countries. In particular, the aftermath of such crises are just as likely to degenerate into bitter battles over the distribution of the adjustment burden.³ Indeed, the Eurozone conflict over this topic is one of the more bitter on record.

2. Currency policies have a powerful impact on debt dynamics.⁴ Currency and

³ For one approach see my “[The Political Economy of Adjustment and Rebalancing](#),” *Journal of International Money and Finance*, 52 (January 2015): 4-14.

⁴ For a quick blogpost on this see my “[Currency politics, debt politics](#)” on Econbrowser.

debt crises are often closely linked, and the political economy of both currency policy and foreign debt are similarly closely related (Stefanie Walter's contribution to this newsletter makes this point clearly).

3. Economic and Monetary Union has many attractions – recall that seven nations have adopted the euro since 2001, six since the crisis began.⁵ However, the restrictions that a fixed exchange rate or common currency impose on national policymakers are serious and can be extremely costly.

The Eurozone crisis is a terrible reminder of how deep and long-lasting the potential economic and political effects of national monetary and financial policies can be. This makes it all the more important for scholars to try to understand why governments pursue the policies that they do – and, if possible, to help contribute to a better-informed public discussion of the choices available to national governments.

⁵ Again, for a quick blogpost on this topic see my “[Currency politics: Understanding the euro](#)” on Econbrowser.



FEATURE ESSAY

Déjà vu All Over Again

Barry Eichengreen, University of California, Berkeley

For aficionados of European economic and political history, it feels like the 1930s all over again. European governments entered the 'Thirties with heavy debts severely limiting their fiscal room for maneuver. Their central banks were tethered to a rigid if brittle international gold standard that severely restricted their capacity to counter deflation and act as lenders of last resort. When the continent was then sideswiped by an economic and financial crisis originating in the United States, the result was collapsing money supplies, collapsing prices, collapsing banks, and collapsing economic activity – in a phrase, the great macroeconomic catastrophe of the 20th century.¹

As unemployment rose into the double digits, popular support for incumbent governments withered. Confidence in the monetary status quo and in policies of fiscal consolidation intended to sustain it were early casualties of these developments. One after another, starting in the summer 1931, central banks experienced runs on their reserves. One after another, they responded by restricting withdrawals of bank deposits, imposing capital controls, and abandoning the gold standard. Currencies depreciated, payments on foreign debts were suspended, and domestic debts were forcibly converted into new securities bearing lower rates of interest. Having regained their monetary autonomy, central banks were able to cut interest rates and take other steps to contain deflation. Governments were able to take modest fiscal initiatives to support economic stabilization and recovery or at least to avoid compounding their difficulties with further spending cuts.

Economic recovery of a sort eventu-

ally followed, but the political consequences were not pretty. Where governments resorted to these expedients, they were roundly criticized for having abandoned previous commitments. Where instead they stayed the course, they met a groundswell of opposition, in the polls and the streets, for their failure to effectively address the crisis. Established political parties lost support to new parties, of the extreme left and right, critical not just of prevailing policies but also of the prevailing political system. Center-left and center-right governments fell and were succeeded by new governments led by extremist parties. The resulting polarization had dire consequences for European solidarity, such as it was, and in some cases for electoral democracy itself.

The parallels with the euro crisis are direct. There is the impact on Europe of the Subprime Crisis emanating from the United States. There is the rigid and brittle euro system limiting, or even eliminating, all scope for a stabilizing monetary response at the national level. There is the deflationary impact of the wage cuts and fiscal consolidation imposed in the interest of preserving the prevailing monetary regime. There is the social distress associated with high levels of unemployment, in some cases exceeding 20 per cent. There is the predictable political reaction, from rising support in national and regional elections for anti-establishment parties of the left, such as Syriza in Greece and Podemos in Spain, and of the right, such as the National Front in France, to lack of effective opposition to governments, like that of Viktor Orbán in Hungary, that, invoking extenuating circumstances, play fast and loose with political freedoms and with the established division of powers. At the European level, there is the erosion of trust and collapse of effective international cooperation.

It is therefore tempting to infer that the euro crisis will end badly. The euro is doomed; ultimately governments will abandon it as a necessary precondition for regaining their policy autonomy. The longer they wait, the more corrosive will be the effects of the ongoing slump, not just on the growth potential of their economies but on the stability and cohesion of their political systems.

This earlier history thus provides a framework for thinking about the nature of the euro crisis and how it might ultimately play out. But differences between the 1930s and the current crisis also point to reasons why the current situation may play out differently. The interwar gold standard was destabilized by the highly deflationary policies of the central bank at the center of the system, the U.S. Federal Reserve. (Some recent accounts would emphasize the deflationary policies of the two leading central banks at the center of the interwar system, the Fed and the Bank of France, but no matter.) At one point in time the European Central Bank could be accused of acting likewise – recall its extraordinary decision in 2011 to raise interest rates in the teeth of Europe's slump, not once but twice – leaving countries seeking to counter deflation no alternative but to contemplate exiting the euro area. But the ECB learned from its mistakes and, arguably, from the critique from commentators and scholars that it was repeating the errors of central banks in the 1930s. In January 2015 it acknowledged deflation as Public Enemy No. 1 and announced an ambitious program of quantitative easing. In contrast to the situation facing members of the interwar gold standard, for members of the euro area there is at least hope of some light at the end of the deflationary tunnel.

In addition, in 1931 and subsequent years, interwar trade and finance had already collapsed. In 1930 the United

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¹ The themes of this column are developed further in his book *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses – and Misuses – of History* (Oxford University Press, 2015).

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States imposed the Smoot-Hawley Tariff, and one country after another retaliated with increased tariff barriers of their own. Governments in Central Europe and elsewhere supplemented tariffs with import quotas and other quantitative controls. Similarly, by 1931 international capital flows had already collapsed. Overseas lending peaked in mid-1928 and headed sharply down; after a brief recovery in 1930, it collapsed permanently in 1931. The argument that the gold standard needed to be preserved in the interest of maintaining free international trade and financial transactions, while widely invoked, thereby lost its weight.

Today, in contrast, the European Union still has its Single Market to preserve. There may have been some decline in cross-border holdings of sovereign debt and cross-border bank lending within the euro area, but any such “renationalization of finance” is mild by the standards of the 1930s.

European rules also prevent member states from significantly interfering with cross-border flows of goods and services. But whether the Single Market – and for that matter the EU itself – would survive the collapse of the euro area is, to put it mildly, uncertain.

Third, say what you will about lack of trust and the decline of political solidarity resulting from the euro crisis, political tensions within Europe, whether between Berlin and other national capitals or more generally, these are still mild by the standards of the 1930s. In 1931 France and Germany were just 12 years removed from four years of devastating trench warfare. There was nothing remotely resembling the institutions of the European Union with its procedures and conventions for organizing cooperation. International loans designed to support governments with embattled currencies and banking systems starting in 2010 might desirably have been larger and

subject to less onerous conditionality, but they have been nothing if not generous by the standards of the 1930s.

Finally, all the weaknesses of present-day European political systems notwithstanding, national political institutions are more durable than in the 1930s. In 1930 some European countries had accumulated barely a decade of practical experience with democracy. In others democratic traditions had longer histories, but experience with an extensive electoral franchise and modern party system was still limited, if not to one decade, then to no more than several. Democratic institutions and traditions today have longer histories, are more deeply embedded, and are therefore, arguably, more durable.

History, Mark Twain is alleged to have said, doesn’t repeat itself, but it does rhyme. We shall see.



FEATURE ESSAY

The Distributive Politics of the Eurozone Crisis

Stefanie Walter, University of Zurich

The euro crisis has turned into one of the most serious challenges that the European Union (EU) has had to face so far. At its root the crisis is a balance-of-payments crisis; caused by divergent economic developments among member states in the pre-crisis years and the deep financial integration that accompanied this process, as Jeffry Frieden points out in this newsletter.

Balance-of-payments crises share the same core problem: a country invests more than it saves, consumes more than it produces and imports more than it exports, all of which is reflected in a current account deficit. When the foreign capital that finances these imbalances dries up, crisis looms.

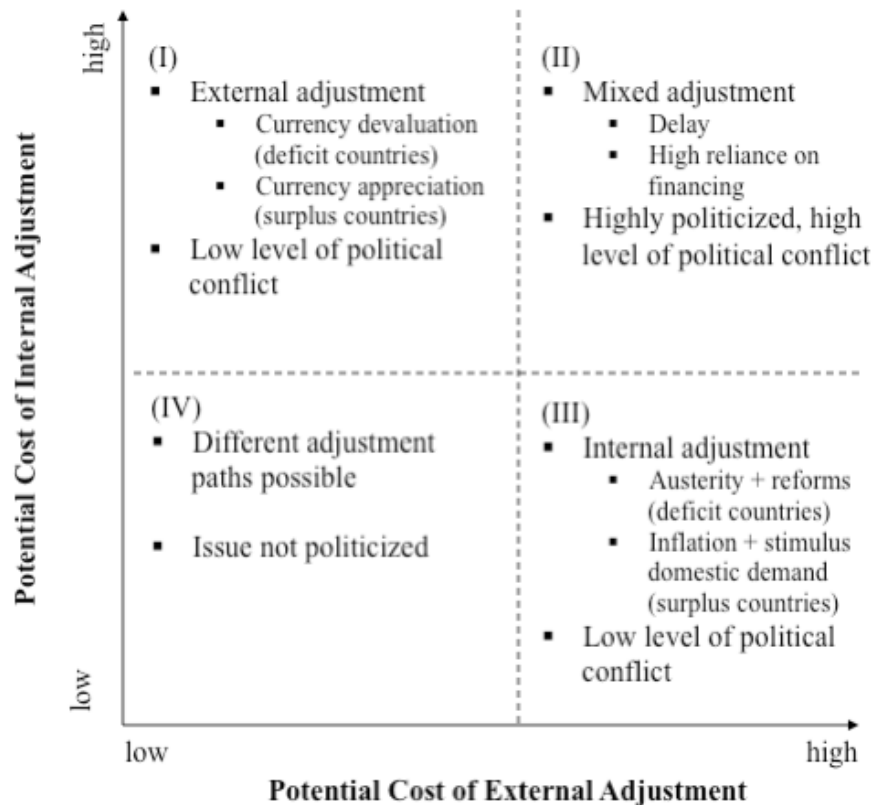
In the past, the typical crisis response of affected countries has been to devalue the exchange rate, a strategy also known as *external adjustment*. A second possible adjustment strategy is *internal adjustment*, in which relative prices are adjusted through austerity and structural reforms. Importantly, adjustment can also be achieved by implementing reforms in countries with current account surpluses. In these cases, external adjustment conversely implies an appreciation of the exchange rate, whereas internal adjustment requires stimulating domestic demand and allowing higher inflation rates.

Adjustment is usually associated with economic costs and therefore politi-

cally costly as well. Policymakers thus frequently resort to a third option: *financing the current account deficit*. Possible sources for such funds include capital officially provided by international organizations such as the IMF or other governments, but also less visible transfers such as those recorded in EMU's Target2 balances. The problem with this strategy is that financing does not resolve the underlying causes of imbalances.

Which policy response a country chooses and how difficult it is to implement this response depends on the country's "vulnerability profile," as depicted in Figure 1 (for a more detailed discussion see Walter 2013). If one adjustment path clearly imposes more costs than the

Figure 1: Vulnerability Profiles in Deficit and Surplus Countries



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alternative, the government pursues the latter path swiftly and without major political difficulties (vulnerability profiles I and III).

In contrast, when both crisis strategies are associated with high economic and social costs (profile II), crisis politics will be fraught with political conflict, delay, and attempts to involve other countries in the crisis resolution process through financing. For countries with this vulnerability profile, distributive conflict is a defining feature of the resolution of balance-of-payments crises. Conflict takes place both within countries – regarding how the cost of adjustment is to be distributed among different societal groups – as well as between them – concerning the question of which state should bear the costs of adjustment.

The fact that the Eurozone is a monetary union make the politics of responding to the euro crisis unique in two key respects, however.

First, the costs of external adjustment are exceptionally high for Eurozone members. Because external adjustment would imply Eurozone exit and possibly the loss of EU membership, such a step is likely to cause financial havoc and a huge economic and political fallout for both the exiting country and the European Union as a whole. Whereas this is less problematic for countries such as Ireland, for which internal adjustment is feasible, it places countries such as Greece, Portugal, and Spain into the unfortunate vulner-

ability profile II. These are examples of deficit countries where macroeconomic austerity and structural reforms are difficult to implement. But surplus countries also find themselves in this profile. For example, its high inflation aversion but equally high vulnerability to a breakup of the Eurozone places Germany in this category as well. In fact, most Eurozone countries fit vulnerability profile II.

This analysis paints a rather depressing picture, because it suggests that EMU policymakers should have a difficult time in implementing a decisive crisis resolution strategy. The painful and drawn-out reform process, the convoluted and controversial politics of the euro crisis, and the strong reliance on external financing in the form of bailouts, the European Stability Mechanism (ESM) and growing Target2 balances all attest to these difficulties. Domestically, incumbents in profile II deficit countries have been punished electorally; support for radical parties has increased and protest politics has become more prevalent in the wake of the crisis.

A second unique feature of the euro crisis concerns the bargaining power of deficit and surplus countries. It is usually difficult for deficit countries to shift the burden of adjustment onto surplus countries, and the euro crisis has been no exception in this regard. EMU surplus countries such as Germany have proven to be rather reluctant to accept higher rates of inflation or to actively stimulate

domestic demand, although the ECB's recent loose monetary policy can be interpreted as a small step in this direction. At the same time, significant financial inter-linkages within the monetary union mean that the costs of a further escalation of the crisis or even a break-up of the Eurozone would be huge for deficit and surplus countries alike. This substantially increases the bargaining power of deficit countries vis-à-vis surplus countries.

Surplus countries that wish to avoid internal adjustment at home may therefore be more willing to contribute to a financing of current account deficits in peripheral countries through intra-EMU or intra-EU transfers, possibly even permanently. The discussions about fiscal union, an EU-wide unemployment benefits scheme, or "intra-EU solidarity" more generally attest to this possibility and it is likely that these discussions will intensify if the crisis persists. Given that this is quite unpopular among many Europeans, however, such financing carries the risk of fueling already growing Euro-sceptic sentiments within member states. Taken together then, this suggests that the resolution of the eurozone's problems will continue to be a drawn-out, painful, and politically costly process.

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THE POLITICAL¹⁵ECONOMIST

GENERAL ANNOUNCEMENTS

SECTION AWARDS: CITATIONS

FIONA MCGILLIVRAY AWARD

(GIVEN FOR THE BEST PAPER IN POLITICAL ECONOMY PRESENTED AT THE PREVIOUS YEAR'S APSA ANNUAL MEETING)

The award is shared by:

“Assessing the ‘Threat’ of International Tension to the U.S. Economy,” Eugene Gholz (University of Texas at Austin)

“Agents of the Regime? Traditional Leaders and Electoral Clientelism in South Africa,” Daniel de Kadt (MIT) and Horacio A. Larreguy (Harvard University)

In addition to highlighting the power and diversity of different political economy methods, this year's prize winners also ranged widely in their choice of topics—another hallmark of our field.

U.S. grand strategy was the focus of our first prize-winning paper, “Assessing the ‘Threat’ of International Tension to the U.S. Economy,” by Eugene Gholz. Gholz's target is the familiar claim that America's military leadership greases the wheels of global commerce. On the contrary, Gholz argues, global trade would continue apace even if the US were to abdicate its leadership responsibilities and let regional conflicts fester. Using historical examples and reasoning by analogy, Gholz makes a compelling case. Well-argued, punchy, and provocative, his paper is a real boom for the reader.

The second award-winning paper is “Agents of the Regime? Traditional Leaders and Electoral Clientelism in South Africa,” by Daniel de Kadt and Horacio Larreguy. What precisely do the governments of developing democracies gain by granting traditional leaders a degree of sub-national territorial autonomy? Drawing on the Apartheid-era Bantustans of South Africa, they analysis quantifies the political payoff—percentage-point increase in vote-shares—derived by the African National Congress as a result of their entering into a deal with the region's traditional chiefs. Making effective use of a geographic regression discontinuity design, their analysis is a paragon of clarity. It generates rich policy and substantive findings.

The selection committee would like to extend its warmest congratulations to the co-recipients of this year's Fiona McGillivray prize.

Committee: Lloyd Gruber (London School of Economics), Alexandra Guisinger (University of Notre Dame), and Milan Svolik (University of Illinois, Urbana-Champaign)



THE POLITICAL ECONOMIST

GENERAL ANNOUNCEMENTS

SECTION AWARDS: CITATIONS

MANCUR OLSON AWARD

(GIVEN FOR THE BEST DISSERTATION IN POLITICAL ECONOMY COMPLETED IN THE PREVIOUS TWO YEARS)

“International Political Economy with Product Differentiation: Firm Level Lobbying for Trade Liberalization,” In Song Kim (MIT)

The aim of this dissertation, written at Princeton University, is to account for trade liberalization when protectionism seems politically optimal. The point of departure is that the within-industry variance of tariff rates in the United States is several times higher than the between-industry variance. The author finds that productive exporting firms are more likely to lobby individually to reduce tariffs (rather than industry-wide), and that countries liberalize industries particularly with partners whom they exchange differentiated products within industry.

The research is based on a breathtaking amount of data collection: over 800,000 lobbying reports are analyzed to study the behavior of US firms, and 2 billion tariff-line data for 181 countries over 25 years are used to study patterns of reciprocal trade.

The consequence of these results are profound and the empirical analysis sets a new bar for anyone who works on international trade.

Committee: Adam Przeworski (New York University), Irvin Lester Morris (University of Maryland), and Megumi Naoi (University of California, San Diego)

WILLIAM H. RIKER AWARD

(GIVEN FOR THE BEST BOOK ON POLITICAL ECONOMY PUBLISHED DURING THE PAST THREE CALENDAR YEARS)

Inequality and Democratization: An Elite-Competition Approach (Cambridge, 2014), Ben Ansell (University of Oxford) and David Samuels (University of Minnesota)

Ben Ansell and David Samuels’ 2014 book, *Inequality and Democratization: An Elite-Competition Approach*, takes on one of the biggest questions in political economy: the relationship between inequality and democratization.

Ansell and Samuels manage to develop a novel and persuasive approach to this question. They argue against those who see inequality as an impediment to democratization, noting a large number of cases in which highly unequal societies, as for example in Latin America, underwent democratization. Formalizing those liberal insights from Locke and others, Ansell and Samuels argue that the root cause of democratization is the bourgeoisie’s fear that the governing elite will expropriate their assets. Democratization is thus a mechanism for protecting the assets of the middle and working classes; inequality is a precondition.

Ansell and Samuels present extensive, rigorous data for their model, testing the crucial links in their causal mechanism. This is a groundbreaking study that reorients our understanding of democratization by rethinking the role of inequality.

HONORABLE MENTION:

Democratic Militarism: Voting, Wealth, and War (Cambridge, 2014), Jonathan Caverley (MIT)

HONORABLE MENTION:

The Political Economy of the United Nations Security Council: Money and Influence (Cambridge, 2014), James Vreeland (Georgetown University) and Axel Dreher (Universität Heidelberg)

Committee: Lisa Martin (University of Wisconsin, Madison), Bonnie Meguid (University of Rochester), and Armando Razo (Indiana University, Bloomington)

THE POLITICAL ECONOMIST

GENERAL ANNOUNCEMENTS

SECTION AWARDS: CITATIONS, ETC.

MICHAEL WALLERSTEIN AWARD

(GIVEN FOR THE BEST PUBLISHED ARTICLE IN POLITICAL ECONOMY IN THE PREVIOUS CALENDAR YEAR)

“Was Weber Right? The Role of Urban Autonomy in Europe’s Rise,” *American Political Science Review*, 108/2 (May) 2014: 337-354, David Stasavage (New York University)

David Stasavage addresses the long-standing debate over the role of cities in the development of European economies in the early modern period. He shows that politically autonomous cities grew faster than other areas in their early phases, but that eventually their growth slowed and fell behind that of other regions.

Stasavage argues the commercial elites that dominated the cities originally established stable property rights that allowed the economy to flourish, but eventually imposed entry barriers that led the cities to stagnate. The article is a powerful contribution to an important debate. Its blend of rich theory and careful empirics makes it an outstanding example of the kind of work that deserves the Michael Wallerstein Award.

Committee: Jeff Frieden (Harvard University), Giovanni Capoccia (University of Oxford), and Jeff Milyo (University of Missouri)

MICHAEL WALLERSTEIN ENDOWMENT

The Political Economy Section has received an endowment of an additional \$3,000 from the Wallerstein family to add to the endowment of the Michael Wallerstein Award for the best published article in political economy in the previous calendar year.

From the Wallerstein family:

On the death of Robert Wallerstein, the father of Michael Wallerstein, he wanted to send an additional contribution to the Political Economy award in Michael’s name. As a pre-eminent psychoanalyst and academic, Robert Wallerstein valued both scholarship and education. He thought this kind of award represented the best of both aspects within his son’s field of Political Science.

